ICBC Insurance Corporation of British Columbia

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CORPORATE PROFILE

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation established in 1973 to provide universal auto insurance to BC motorists. In addition, the Corporation is responsible for driver licensing, vehicle registration and licensing and commercial vehicle compliance.

All motorists in BC are required to buy a basic package of ICBC Autoplan insurance that provides coverage for third party legal liability protection, accident benefits, underinsured motorist protection, hit-and-run and uninsured motorists protection and inverse liability. In addition to providing this basic insurance, the Corporation competes with other automobile insurance companies by offering extended third-party legal liability and other optional insurance coverage such as collision and comprehensive coverage.

In setting premiums, ICBC does not discriminate on the basis of age, sex or marital status and discounts are provided based on the number of years that a driver has been claims free. The Corporation collects insurance premiums from more than 2.6 million motorists and invest these premiums to provide insurance benefits for customers and victims of crashes.

We work with communities and stakeholder groups to help them take responsibility for their road safety challenges. We work with Autoplan brokers to promote safe driving through a series of programs under the umbrella name of RoadSense. We invest in a number of loss-prevention initiatives in pursuit of the financial benefits from reduced crashes, injuries and deaths.

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Message from the Chair and President

If the insurance industry is unanimous in anything, it is likely that 2001 is a year they would prefer not to repeat. Falling interest rates, declining stock markets and the slowing economy all played their part resulting in significantly lower investment returns. The terrorist events of September 11 also contributed immeasurably to the human and financial cost.

Added to this was the recognition of the increasing claims trends that manifested itself in 2000. Claims increased for the first time since 1997, reaching levels we saw previously in 1998. In the past, these increases were managed through active road safety programs and as a result, B.C. has not only reversed its previous trend of increasing crash statistics, but has become a leader in Canada for crash reduction. These programs have allowed the Corporation to enjoy several years of positive prior years' claims adjustments. However, these were exhausted at the end of the year 2000 and we have had no positive impact in 2001. This situation, together with the lower investment income, $100 million provision for the diminution in value of the development underway in Surrey and the $40 million restructuring costs, combined to produce the worst financial year in the Corporation's history and highlighted the need for many of the operational improvements commenced in the year.

Adding to these challenges was the process to overhaul Government commenced by the newly elected Liberal government, including a review of all crown corporations. Following the change in government, a new Chair and nine-member Board were appointed to work with ICBC's management to take on these challenges. In January 2002, a new President and CEO was appointed to lead the Corporation in implementing the changes required in the years ahead.

During the year, a number of positions in the Corporation were eliminated, including several senior management positions and a voluntary separation program was offered to all employees. As a result, the number of people employed by the Corporation in January 2002 is almost 1,000 (approximately 15%) less than in 2001. In addition, we have reduced the number of office leases in downtown Vancouver and elsewhere and commenced further steps to rationalize the operational requirements of the Corporation.

Plans are underway to analyze every expenditure of the Corporation to ensure that ICBC meets its responsibility to operate a sound, efficient and accountable business that customers value. This review process will continue into 2002 with particular emphasis on individual performance and the need to maintain excellent customer service. A performance management system, which sets individual objectives and monitors progress against objectives, has already been implemented for senior executives. This will be carried down throughout the Corporation over the next year.

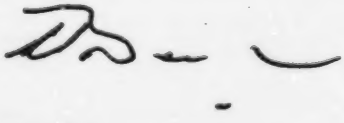
In addition, new criteria have been established for all projects, programs and sponsorships supported by ICBC. Each will require a detailed cost/benefit analysis with expenditures targeted to reduce both overheads and the future incidence of claims. Program design and delivery is also being overhauled.

Customers will be offered more choice. For example, B.C. drivers will be offered more options to customize their insurance needs. Far greater use will be made of the Internet to both educate drivers on ICBC's range of products, as well as to speed and simplify delivery through the broker network utilized by ICBC.

We reviewed the premiums charged by the Corporation in the fall and made changes that were implemented for late 2001 and beyond. This was necessary as a result of the situation facing us. Some adjustments were also needed to match the premiums charged to the risk profile. As well, an increase in revenue was required to begin to rebuild reserves depleted as a result of the losses experienced during the year and the dividend of $219 million paid to customers at the beginning of 2001. The rate increase, which averaged 7.4%, was the first increase instituted by ICBC after a rate freeze of six years.

As we move forward and consider the role and shape of the Corporation in the future, we are confident that with our current Board, Management and the thousands of dedicated employees, we will be up to any challenges which face us. We have been delighted at the work ethic and energy in the Corporation and we look forward to being a part of the team that leads ICBC to the achievement of its full potential within the mandate to be laid down by the British Columbia Government.

Nick Geer
CHAIR OF THE BOARD



Kevin Benson
PRESIDENT AND CHIEF EXECUTIVE OFFICER

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Corporate Overview

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation established in 1973 by the Insurance (Corporation) Act to provide universal auto insurance to B.C. motorists. In addition, the Corporation is responsible for driver licensing, vehicle registration and licensing and commercial vehicle compliance.

ICBC is currently one of B.C.'s largest corporations and one of Canada's largest property and casualty (P&C) insurers. ICBC receives insurance premiums from more than 2.6 million motorists and invests these premiums to provide insurance benefits for customers and victims of crashes.

ICBC's operations generate over $2.4 billion in annual insurance premiums and $425 million in licence fees and fines through a network of over 900 independent brokers. These brokers provide one-stop shopping for ICBC's Autoplan products, vehicle registration and licensing services throughout the province. The linkage between vehicle licensing and the purchase of insurance also serves to minimize the number of uninsured drivers within B.C.

All motorists in B.C. are required to buy a basic package of ICBC Autoplan insurance that provides coverage for third party legal liability, accident benefits, underinsured motorist protection, hit-and-run and uninsured motorists protection and inverse liability. In setting these premiums, ICBC does not discriminate on the basis of age, sex or marital status and discounts are provided based on the number of years that a driver has been claims free.

- Third Party Liability coverage pays for claims up to a specified limit, if insureds are held legally liable for injuring a third party or damaging his/her property in a motor vehicle crash. In B.C., the minimum coverage provided under basic insurance is $200,000.
- Accident Benefits cover medical expenses, rehabilitation costs and wage loss due to injury in a crash, funeral costs and death benefits. This coverage provides up to $150,000 of benefits and is available to:
  - occupants of a vehicle licensed and insured in B.C.;
  - pedestrians or cyclists injured in a crash involving a motor vehicle if the injured person or a member of their household is insured through Autoplan; and
  - pedestrians or cyclists hit or injured in Canada by a vehicle that is licensed and insured in B.C.
- Underinsured Motorist Protection provides benefits of up to $1 million for injuries in situations where the responsible party does not have adequate insurance.

- All B.C. residents, whether they own and insure a vehicle or not, are automatically covered for up to $200,000 if their property is damaged or they are injured or killed by an uninsured or hit-and-run driver on a highway in British Columbia.
- Inverse Liability coverage provides protection in parts of Canada and the U.S. where the law does not permit recovery of losses from a driver who causes a crash. In this situation, basic Autoplan will pay the cost of repairs of the vehicles, up to an amount that the other responsible driver would have had to pay in B.C.
- In addition, any person holding a B.C. driver's licence or any members of their household are entitled to Third Party Liability coverage of up to $200,000, Accident Benefits of up to $150,000 and Underinsured Motorist Protection of up to $1 million. Uninsured or hit-and-run coverage is also provided in the Yukon, Northwest Territories and the United States for injuries and death up to a limit of $200,000.

The total of these coverages provides B.C. drivers with one of the best benefit packages in Canada. The limit for no-fault Accident Benefits coverage in B.C. is $150,000 per person for medical and rehabilitation benefits, while these same benefits are limited to $50,000 per person in New Brunswick, $25,000 per person in Nova Scotia, Prince Edward Island and Newfoundland, and $10,000 per person in Alberta.[1] B.C., Alberta and the Maritime Provinces are tort system provinces with minor provisions for no-fault coverage.

Manitoba, Saskatchewan and Quebec are all no-fault jurisdictions with government run systems. No-fault insurance focuses on providing benefits to injured parties by covering that person's losses - according to policy limits - regardless of who was at fault. This approach restricts the injured party's right to sue for any damages. Ontario uses a threshold system, a hybrid of both the tort and no-fault model.

In addition to providing this basic insurance, the Corporation competes with other automobile insurance companies in the sale of extended third-party legal liability and other optional insurance coverages such as collision and comprehensive coverage.

The Corporation receives approximately 1.1 million claims each year through a province-wide network of 45 claim centres, telephone claims call centres and other claims-handling facilities. To service claims, ICBC contracts with suppliers and service providers in a variety of industries, including body shops and glass shops, towing companies, doctors, physiotherapists, other medical service providers

[1] Under its Accident Benefits coverage, Alberta also limits chiropractic treatment to $500 per person per occurrence (see Insurance Bureau of Canada site at www.ibc.ca under Auto Insurance and the Law - Alberta).

and lawyers in all parts of the province. These suppliers and service providers are involved in helping claimants to repair their vehicles, recover from injury, or settle their claims with ICBC. In its operations, ICBC interacts with up to 1,600 collision and glass shops, up to 10,000 medical practitioners and over 100 legal firms for defence work.

As a result of the merger with the Motor Vehicle Branch (MVB) in the late 1990's, ICBC provides driver licensing services, commercial vehicle compliance (e.g. weigh scales and commercial vehicle inspections) and expanded road safety programs. On an annual basis, ICBC performs over 1.2 million transactions relating to the issuance of driver licences and driver exams. Since 1997, ICBC has invested between $30 to $60 million annually on road safety programs.

Investments are made in loss-prevention initiatives, which result in financial benefits to ICBC's policyholders from reduced crashes, injuries and deaths. Examples of these programs include: Graduated Licensing, Intersection Safety Cameras, cost-sharing partnerships with provincial and municipal authorities for road improvement projects and funding for enhanced enforcement for speeding, dangerous driving and CounterAttack campaigns.

We work with communities and stakeholder groups to help them take responsibility for road safety challenges. This includes working with public health and safety personnel on the correct use of child and infant restraint systems and local auto crime prevention programs. We continue to work closely with health-care specialists, and other partners in the rehabilitation field, with the goal of helping people who have suffered disabling injuries to rebuild productive lives. We also promote safe driving through a series of public education efforts under the umbrella name of RoadSense. These include a curriculum program offered in B.C. high schools to provide youth with basic knowledge of the risks associated with being a passenger or a driver and ways to manage those risks. At the elementary level, the RoadSense Kid's program offers a series of lessons for young children on road safety. ICBC and Autoplan brokers have worked together to create many road safety programs for children and teens, including the 'Way to Go' program, promoting the use of safe travel alternatives for school children.

Five-year comparison For the years ended December 31

KEY NUMBERS	2001	2000	1999	1998	1997
Premium income ($000)	**2,447,066**	**2,387,031**	2,382,411	2,368,929	2,303,456
Licences and fines revenue[1] ($000)	**424,630**	**422,628**	423,348	435,558	410,249
Claims incurred during the year ($000)	**2,126,250**	**2,006,151**	2,080,270	2,134,604	2,189,128
Prior years' claims adjustments ($000)	**2,230**	**(266,336)**	(238,200)	(219,456)	(163,205)
Claims services and operating costs ($000)	**883,515**	**915,636**	893,806	786,422	700,597
Investment income ($000)	**453,955**	**625,660**	449,188	412,236	386,950
Income (loss) from insurance operations ($000)	**(15,213)**	**460,154**	196,499	212,986	66,466
Net income (loss) for the year ($000)	**(250,519)**	**138,740**	95,723	73,465	13,985
Investments at year end ($000)	**5,536,510**	**5,841,304**	5,606,029	5,623,297	5,290,821
Unpaid claims ($000)	**4,044,312**	**3,889,839**	3,970,298	3,959,129	3,782,720
Unearned premiums ($000)	**1,163,068**	**1,111,255**	1,100,175	1,102,258	1,073,485
Total assets ($000)	**5,824,570**	**6,191,408**	5,945,610	5,984,391	5,650,216
Rate Stabilization Reserve ($000)	**269,222**	**519,741**	381,001	285,278	211,813
Autoplan policies[2]	**2,661,000**	**2,614,000**	2,572,000	2,552,000	2,499,000
Average premium ($)	**888**	**882**	888	893	877
Claims reported during year	**1,105,000**	**1,026,000**	1,029,000	992,000	1,002,000
Loss ratio:					
Current year (%)	**100**	**98**	101	102	106
Prior year's claims adjustments (%)	**-**	**(11)**	(10)	(9)	(7)
Loss ratio (%)[3]	**100**	**87**	91	93	99
Expense ratio (%)[4]	**19**	**20**	19	17	17
Year end full time equivalents[5]	**5,625**	**6,436**	5,976	5,820	4,863

1 Licence and fines revenue are remitted in full to government.
2 Annualized values have been used for policies with a term of less than 12 months.
3 Loss ratio is based on current year claims and related costs and prior years' claims adjustments as a percentage of premiums earned.
4 Expense ratio is based on insurance operating costs as a percentage of premiums earned and excludes one time restructuring costs.
5 Commencing in 1998, the average number of employees reflects the first full year of integration of Licensing and Commercial Vehicle operations.

Certain comparative figures have been restated to conform to the current year's presentation.

Management's Discussion & Analysis

A YEAR IN REVIEW

Over the past year, the Insurance Corporation of British Columbia has continued to lead the industry and build upon its loss prevention strategy of reducing crashes and crimes. Continuing this focus will be a key element in our drive towards financial health and operational excellence. The Corporation will continue to work with major partners on road safety initiatives, with the objective of realizing tangible benefits in direct claims savings.

The primary focus for 2001 was on financial health and restraint, positioning ICBC to be able to adapt and respond strategically to future changes. It was recognized that the positive financial results of the past few years could not be sustained into 2001 and new strategies were needed. The availability of favourable prior years' claims adjustments and extraordinary investment income results could not be expected to continue. In the past, prior years' claims adjustments, which arose as a result of the re-estimate of unpaid claims costs, have made a significant contribution to ICBC's bottom line. These adjustments, totaling $991 million from 1996 to 2000, have been possible due to the Corporation's investment in road safety initiatives and claims costs reduction initiatives. In addition, the Corporation maintained a freeze on premiums for six consecutive years.

During the period of road safety program development, the Corporation experienced growth in administrative and operating expenses. A portion of this increase came from the merger with the previous Motor Vehicle Branch in the late 1990's. With increased expenses, forecasts of reduced investment income and rising claims costs, it became apparent that immediate measures were required.

This led to a comprehensive review of all business functions, which resulted in a restructuring of operations, rationalization of programs, reduction in staffing levels, reduction in corporate sponsorships and a reduction in corporate leased premises. Compensation savings alone from these reductions are estimated to be between $50 to $60 million annually starting in 2002. This review continues with further anticipated savings to be realized. Steps were also taken during 2001 to match the premium charged to the risk profiles for both basic and optional insurance products.

In relooking at the financial situation in the fall of 2001 for the upcoming year, it became apparent that the projected premium revenues and lower investment income were not sufficient to cover expected increased claims costs and operating expenses in 2002. The extraordinary year of 2000, which experienced considerable gains as a result of a heightened market, had not been repeated. In addition, a $100 million provision for the diminution in value of the Surrey development was considered necessary. The Corporation concluded that a premium increase was required to achieve a positive financial

position and introduced premium increases in November 2001, averaging 7.4%. These premium increases, the first in six years, also permitted ICBC to adjust inequities that had arisen between various customer groups.

The deterioration in its financial situation was not unique to ICBC. Since 1998, the property and casualty industry has experienced steady declines in earnings, capitalization, and pricing adequacy. Despite premium increases, many believe that prices in a number of large market segments are still inadequate. Profitability has and will continue to be impacted by poor investment returns, largely due to a weak economic outlook, declining interest rates, weak equity markets and rising claims costs. For the industry, soft tissue injuries account for the largest share of rising claims costs and can be attributable to increases in medical and rehabilitation costs and an increase in the number of smaller claims. Given these factors, ICBC's focus will be to decrease administrative costs, increase efficiencies and improve underwriting results through managing claims costs and where necessary, adjusting rates.

For 2002, ICBC will continue to position itself as a low-cost provider of auto insurance to serve the broad market of all British Columbia customers. This will be achieved through operational excellence and loss prevention. Key priorities for 2002 include:

- *Understanding the customer.* Delivering what customers value can only be accomplished through listening to them and increasing product ranges to fully address stated needs.
- *Operational excellence.* With a major downsizing in 2001, the challenge now is to ensure existing operations are run efficiently and productively.
- *Financial sustainability.* ICBC will continue working towards financially sustainable lines of business — such as the separation between basic and optional insurance. "Right-pricing" is necessary to ensure customers are paying the premium required for the risk they represent. Further cost containment measures and new areas of revenue will also be looked at.
- *Loss prevention.* Working with key partners to reduce crashes and crimes through cost-effective loss prevention measures continues to be a corporate priority for 2002.

FINANCIAL OVERVIEW

The past year was a difficult year as the Corporation undertook a number of cost reduction challenges, the most significant being the downsizing of the workforce. The year 2001 ended with a net loss of $251 million, a dramatic change from the $139 million net income in 2000. However, 2000 was an exceptional year due primarily to high investment income from the sale of equities in an extremely active stock market. In 2001, realized gains decreased from $283 million in 2000 to $138 million. Favourable adjustments to prior years' claims also had a $266 million impact on net income in 2000, but were not repeated in 2001. These changes in investment income and prior years' claims adjustments together have accounted for a swing in profitability of $440 million. The Corporation also established a $100 million provision for its real estate development in Surrey and incurred $40 million in restructuring costs as a result of its downsizing efforts.

PREMIUM REVENUE

Premiums written increased to $2.5 billion in 2001, up from $2.4 billion in 2000, due mainly to an increase in the sale of optional coverage as well as an increase in the number of policies sold. Total Autoplan policies increased by 1.8% from 2,614,000 policies in 2000 to 2,661,000 policies in 2001. Vehicle population growth is the primary driver for these sales.

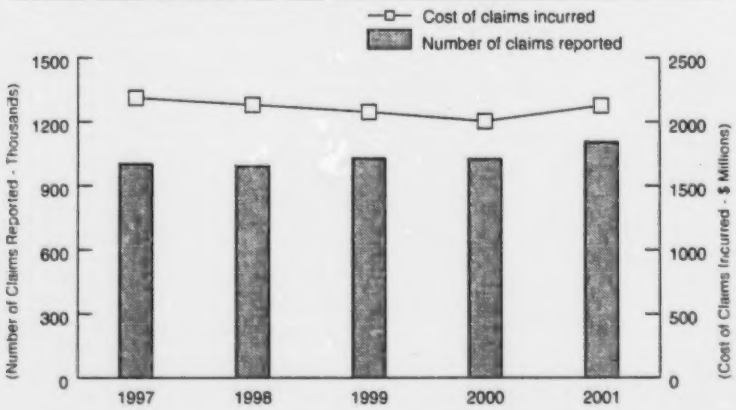
As the year progressed, it became evident that the financial outlook for 2001 would show significant losses and action was required to avert a similar situation in 2002. The Corporation commenced a comprehensive review of administrative costs, operating costs, program costs, product changes and deductible changes. The primary goal of this review was to find ways to minimize the impacts to customers before considering a premium increase. After examining and taking action to address the factors that would impact the profitability of the insurance business, ICBC increased premiums on average by 7.4%, the first increase in six years, to allow the Corporation to achieve a positive financial position in 2002.

CLAIMS

Changes in Claims Costs

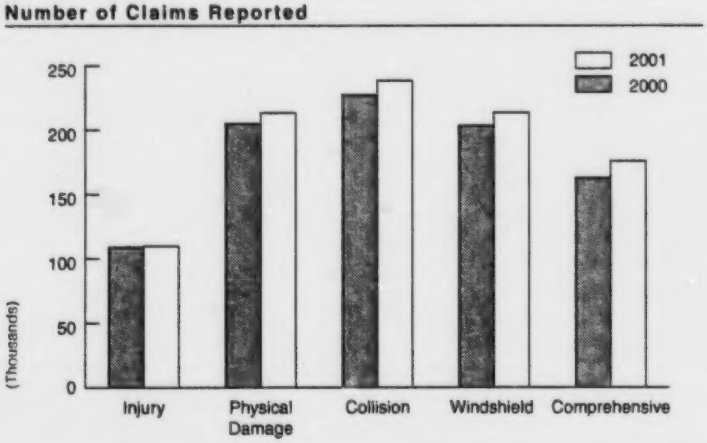
Overall, the costs of claims incurred increased $120 million to $2.1 billion in 2001 over 2000. Changes in these costs arose from an increase in the number of claims reported and in the average cost of these claims.

Claims Reported and Claims Incurred Costs



After a number of years of minimal increases, the number of claims reported in 2001 increased, reaching an all-time high for the Corporation of 1.1 million — up 7.7 per cent — mainly from material damage (non-injury) claims. The chart below shows a breakdown of increases in the major types of claims reported for 2000 and 2001.

Number of Claims Reported

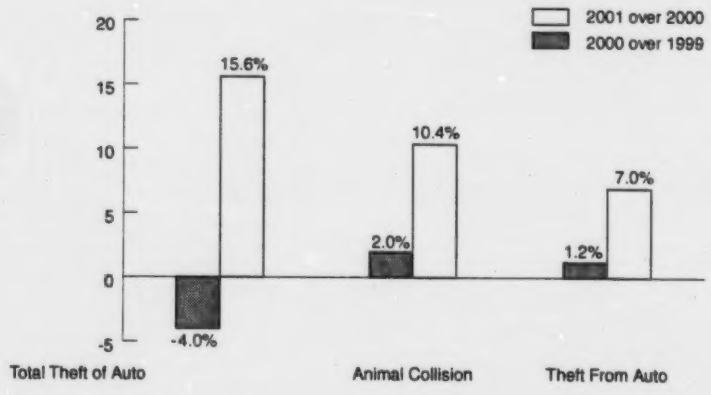


Injury claims costs account for approximately 54% of total claims costs in 2001. The number of injury claims reported was up 0.9 % over 2000 and the average cost of an injury claim decreased by 4% in 2001. This is due to the fact that the Corporation settled a higher number of large dollar claims in 2000, including a serious bus collision in Revelstoke. Property damage claims increased 3.9% over 2000 and collision claims increased 4.9%. A number of factors resulted in these increases - an increase in the number of policies sold and increased traffic volumes during the four month transit strike in the Lower Mainland. The average costs for these claims did not change significantly between the two years.

In 2001, the number of windshield claims also increased 5% over last year, likely due to changes in coverage with respect to windshield repairs. In November, changes were made to increase the minimum deductible from $100 to $200 and the policy to waive the deductible for windshields that are repaired instead of replaced was eliminated. As a result of this announcement, there was an increased number of windshield claims reported in 2001 which would otherwise have been reported later.

The most significant increase was in comprehensive claims which includes fire, theft of and from auto, animal collision and vandalism. Within comprehensive claims, increases of up to 15.6% over 2000 results were seen in the theft of auto, theft from auto and animal collision claims as illustrated in the chart below. It is believed that a slow down in the economy and lower public awareness may have contributed to this increase. The Corporation continues to actively work with municipalities in loss prevention activities to stem further increases in this area. Initiatives are being developed to heighten public awareness around auto crime and partnership opportunities are being pursued to increase the level of enforcement activities.

Comprehensive Claims
Percentage Change in Number of Claims Reported



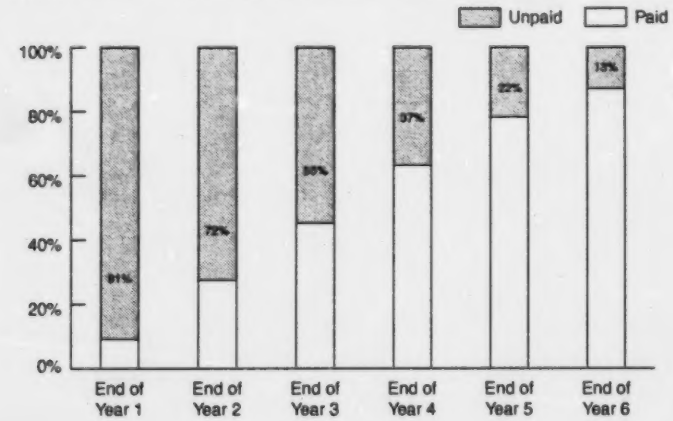
In 2001, the average costs of windshield and comprehensive claims increased over 6%. In addition to a price increase for parts and materials, theft claims represent the more expensive types of comprehensive claims and with the increase in the number of these claims, the overall average costs of comprehensive claims has increased.

Unpaid Claims Reserves

The unpaid claims reserve, that is monies set aside in anticipation of future claims payments, increased to $4 billion in 2001 from $3.9 billion in 2000. Estimates for these future claims costs can change significantly since claims are sometimes settled years after their occurrence, claims can be disputed and litigated and the impacts of new road safety programs are often difficult to determine until years after they are implemented. The actual financial impact of a claim is known only when the claim is settled and this can take several years to establish. A one percentage fluctuation in unpaid claims can result in an impact of $40 million on claims costs.

Bodily injury claims account for approximately half of total claims costs. As shown in the chart below, payments on bodily injury claims are made over a number of years. As the claims develop, more information becomes available and the estimate of the remaining future claims payments are refined and adjusted to reflect the most current forecast of claims costs.

Breakdown of Bodily Injury Costs
(A Typical Accident Year)



The adequacy of the unpaid claims reserve is reviewed and adjusted periodically throughout the year based on revised actuarial estimates from the Corporation's actuary. ICBC also commissions the services of an external actuarial firm to provide an independent assessment of the claims reserves and as part of its annual audit of the financial results, the external auditor reviews the adequacy of the reserve. With the appointment of a new Board and the significance of this financial item, ICBC engaged the professional services firm Ernst & Young LLP in August 2001 to conduct a further independent review of reserves at December 31, 2000 and May 31, 2001. The review concluded that the Corporation's unpaid claims reserves were more than adequate to cover estimates of liabilities as of both dates.

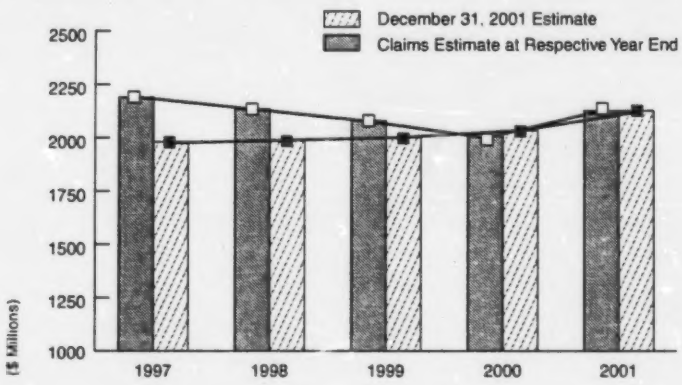
Prior Years' Claims Adjustments

Prior years' claims adjustments are a result of the re-estimate of future claims costs for claims in progress and those incurred but not reported with respect to prior years. These adjustments are required as information about the claims become available to reflect the most current outlook for future claims payments.

In the past, these adjustments have allowed the Corporation to achieve positive financial results over the years and avoid the need for premium increases. This is largely attributable to the results of road safety and claims costs saving programs undertaken by the Corporation since 1996 which changed the trend of claims experience from previous years. Since then, favourable prior years' claims adjustments totaling $991 million have been made, including $266 million in 2000. However, over time, the impact of these programs and their effect on the claims trends are factored into the claims estimating process and further significant changes in trends are not expected as programs reach maturity.

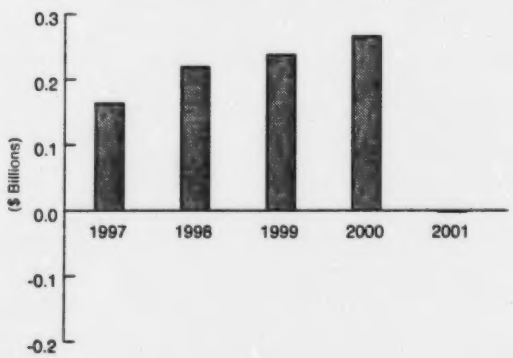
A clearer picture of claims trends becomes apparent when prior years' adjustments are allocated back to the year in which the accident occurred (accident year) as shown in the chart on the following page. The first bar for each year shows the original claims estimate from 1997 to 2001 at the end of each of those years respectively. Based on this information alone, a downward trend was predicted until 2001 when the trend starts to increase. However, the second bar shows the latest claims estimate for those same accident years and highlights an increasing trend from 1997 to 2001. The difference between the original and the latest claims estimates are the prior years' adjustments recorded by the Corporation. This increasing claims trend based on the latest claims estimate gives a clear indication that the Corporation could no longer maintain a rate freeze and that continued emphasis on financial restraint and claims costs reduction initiatives is necessary. These trends are regularly monitored and claims costs are adjusted when necessary through the Corporation's claims reserving process.

Claims Costs with Claims Development Reallocated to the Accident Year

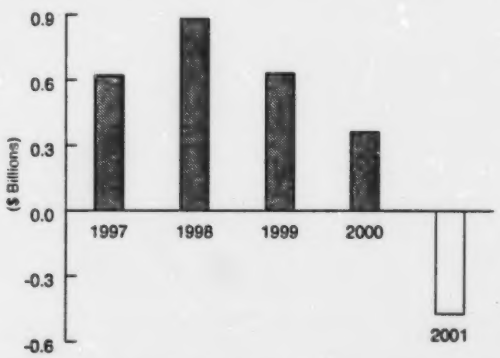


In 2001, prior years' claims adjustments had a negative impact on the Corporation's results, a significant change from previous years. This reversal in claims development is consistent with the property and casualty industry. The charts below compare ICBC's experience with prior years' claims adjustments with the industry. ICBC experienced significant and prolonged favourable adjustments up until 2001 when an unfavourable adjustment of $2 million was recorded. In addition to the general favourable claims adjustment trends experienced by industry, ICBC experienced more significant adjustments due to the Corporation's investment in road safety and claims cost reduction intitiatives. The impacts of these programs on the claims trends have now been factored into the claims reserving process and were not repeated in 2001. The property and casualty industry experienced favourable claims development up until 1998 when it peaked. For 1999 and 2000, the industry still recorded favourable development although the trend was on the decline until 2001 when insurers were required to increase reserves significantly for prior years' claims.

ICBC Favourable Claims Development



Industry Favourable Claims Development [1]



[1] Reproduced from IBC, Perspective, Volume 8, Number 1, March 2002.

Loss Prevention

As a Crown corporation, ICBC's existence is based on the premise that B.C. drivers enjoy more benefits under the current system than under any comparable model. The basic Autoplan package certainly attests to that. Over the years, the Corporation has also expanded its activities from merely insuring drivers to finding ways to reduce crashes, and with them premiums. As a result, B.C. has not only reversed its previous trend of increasing crash statistics, but has become a leader in Canada for crash prevention.

ICBC first began to introduce loss prevention programs in the early 1990's and in 1996 ICBC was given an expanded mandate to create a safer driving environment throughout the province. The focus turned to safer intersections and better vehicle design, better driver education, support for enhanced traffic law enforcement and a tougher graduated licensing program for new motorists and improved rehabilitation for those injured in crashes. In 2001, the Corporation provided funding for over 100,000 hours of high-visibility enforcement and equipped 120 high risk locations for intersection safety cameras. Through the Get Home Safe program, materials on impaired driving were also displayed at sports venues throughout the province. The Graduated Licensing program, with extended learner and novice programs and tougher road tests for new drivers, was completed in 2001.

There have been significant investments in loss prevention — averaging $30 million to $60 million annually from 1997 to 2001. By reducing injuries and deaths, ICBC was able to lower claims costs. The financial paybacks from these investments have been substantial.

One program that has had an excellent return on investment has been ICBC's Road Improvement program, which devotes financial resources to improving roads and intersections in partnership with provincial and local road authorities. The goal is to identify high-crash locations — on B.C. roads and develop engineering solutions such as new signal lights, better marked crosswalks, new left-turn bays etc. In 2001, the Corporation completed over 200 improvement projects with an investment of approximately $7 million. Over the last several years, the program placed an emphasis on safety-conscious planning — ensuring that safety is a primary concern in the planning of new roads.

Program evaluation takes several years to complete and the success of 2001 projects cannot yet be assessed. Previous initiatives have had very positive results, and in many cases quite apart from the savings in lives and suffering, there has been a three-to-one return for money invested in improving collision-prone locations.

In 2001, an example of a new initiative is the one that took place in the city of Kamloops where the municipality and ICBC worked together on a community road safety planning project. The Kamloops safer city plan considers engineering, planning, enforcement and community initiatives aimed at achieving

safer drivers and roads. The engineering measures include addressing high-risk locations and introducing proven road safety measures on an area-wide basis. Another important engineering component has been the adoption of road safety audit processes by the city. Kamloops has also been chosen as the pilot for safety conscious planning, an ICBC program that includes processes and techniques for ensuring that safety is an explicit priority in land-use and transportation planning initiatives.

Another example of community involvement was the Kootenay Fatality Reduction Program where many stakeholders worked together to improve safety and as a result, driver seat belt wearing rates increased from 77% to 85%.

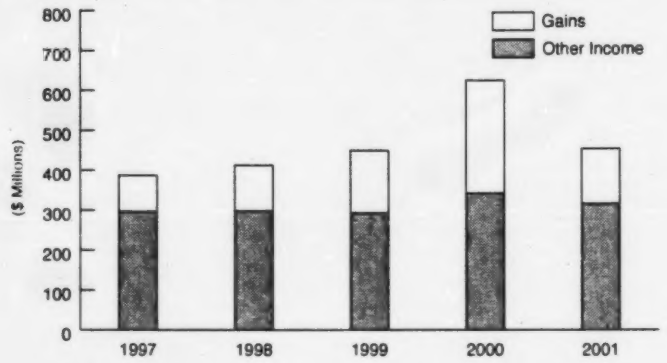
In partnership with Autoplan brokers, ICBC supports the CounterAttack and RoadSense Society of B.C. (C.A.R.S. BC) program which is a network of youths focused on raising awareness for road safety issues and organizing prevention activities. Youth scholarships for accredited post-secondary institutions are also offered by Autoplan brokers to those who demonstrate a commitment to road safety. In 2001, ICBC also partnered with BCAA to significantly increase child seat inspection programs.

INVESTMENTS

Funds available for investment purposes comes primarily from the reserves set aside for unpaid claims, unearned premiums and monies set aside for the Rate Stabilization Reserve. At the end of 2001, ICBC's investment portfolio totaled $5.5 billion and represents 95% of the Corporation's assets. The investment portfolio consists primarily of bonds, money market securities, equities and real estate.

During the year, slowing economy, falling interest rates and declining equity markets have affected the investment return of the property and casualty industry as a whole. For ICBC, this has meant that the extraordinary gains realized from the sale of equities in 2000 did not reoccur in 2001 and results normalized to levels seen in 1999. In total, investment income declined from $626 million in 2000 to $454 million in 2001. The difference is due to the decrease in realized capital gains from $283 million in 2000 to $138 million in 2001 as illustrated in the chart on the following page. Despite the challenges in the investment environment, ICBC's performance exceeded that of property and casualty benchmark group both for 2001 and for the three years prior to that.

Investment Income



Within the investment portfolio, we have invested approximately $274 million in real estate with the most significant holding being the Surrey Central City real estate development project. The project is for the development of a new 25-storey office tower at the site adjacent to the Surrey Place Mall with completion scheduled for January 2003. Total expected cost for the development is $209 million and $156 million has been incurred to the end of 2001, including commitments. ICBC Properties Ltd. is a wholly owned subsidiary of the Corporation responsible for managing this project and other real estate holdings within the investment portfolio.

Independent assessments of the Surrey Central City development project recently concluded that given the market conditions, it was prudent to establish a provision of $100 million against this development. The type of building being constructed and associated amenities are attractive to a very limited tenancy base at this location. These factors led to the decision to recognize the diminution in value of this development in 2001.

FINANCIAL RESTRAINT

Over the past year, ICBC has restructured, initiated program cuts and implemented staffing efficiencies to streamline operations and reduce overall expenses. These measures were critical in moving the Corporation towards sustainable financial health. The most significant reduction comes from the departure of approximately 1,000 Full Time Equivalents (FTE) since April 2001. This represents a 15% reduction in staffing levels. While absorbing a one time transition cost of $40 million in 2001 to fund a voluntary separation package and other related costs, the Corporation will gain in 2002 and future years by saving between $50 to $60 million annually in reduced operating costs.

In 2001, the process began with a review of discretionary expenditures and project resources. These included reductions in professional services, furniture and equipment costs (includes computers), travel and accommodation, advertising and corporate sponsorships.

This was followed by a comprehensive review of business functions within each division to identify areas that could be eliminated or reduced. The results of the functional reviews provided the framework and financial targets for developing the 2002 business plans. Approximately 300 staff positions since April 2001 were reduced by not filling vacancies and through involuntary departures and 700 positions were reduced through the voluntary separation package. Specifically, these changes included staff reductions in many support areas in the range of 21-32%.

The Corporation also began a process to rationalize and consolidate office space in the Lower Mainland commencing with the reduction of approximately 80,000 square feet. This will result in anticipated annual savings of $2.5 million and a review is underway on other locations.

As 2002 approaches, the Corporation will continue to strive for efficiencies to ensure that products and services delivered are valued by our customers and are priced as economically as possible. The implementation of an appropriate performance management system with clear accountabilities will be critical to the achievement of these outcomes and will require a shift in culture at ICBC to one based on performance and results. With a leaner organization and an improved financial outlook, ICBC is positioned to adapt and respond strategically to any future changes.

NON-INSURANCE OPERATIONS

The administrative costs for operating the licensing and compliance functions of $95.8 million are funded through insurance premiums and represent approximately 4% of the premiums earned in 2001.

Since the early 1980's, the Corporation has been collecting vehicle registration and licence fees, and managing the vehicle licence plate and decal inventory on behalf of government. Following the merger with the Motor Vehicle Branch in the late 1990's, ICBC assumed additional responsibilities for providing driver licensing services, commercial vehicle compliance (e.g. weigh scales and commercial vehicle inspection) and fines collection. On an annual basis, ICBC performs over 1.2 million transactions relating to the issuance of driver licences and driver exams. For 2001, $425 million of licence fees and fines were collected and remitted directly to government.

RESERVES

Reserves are required to ensure sufficient funds are available to pay future claims liabilities and to provide the Corporation with the ability to absorb unexpected losses arising from unusual events and factors. Changes to the reserves arise from the net financial operating results of the Corporation each year. In 2001, the culmination of reduced investment income, no positive prior years' claims adjustments, the $100 million provision for the Surrey development and $40 million in restructuring costs have led to the final net loss of $251 million. As a consequence, the Rate Stabilization Reserve was reduced from $520 million in 2000 to $269 million in 2001. This in turn had a significant impact on the rate stabilization reserve to liabilities ratio decreasing it to 4.8% in 2001 from 9.2% in 2000.

In 2002, the Corporation will be primarily focussed on improving profitability and achieving positive financial results. Initiatives underway will continue and be fast tracked where there are opportunities for improving value to the customer and for further efficiencies. ICBC will continue working towards financially sustainable lines of business and ensuring premiums appropriately reflect the risk. New products or lines of business will be developed which meet customers' stated needs as well as improve profitability. The Corporation will continue to work with key partners on cost-effective loss prevention activities which have a direct impact on reducing the costs of claims. All aspects of the Corporation's operations will be examined for profit oriented opportunities which build upon ICBC's strengths. Provided there are acceptable financial returns, these will be undertaken by the Corporation or in partnerships with others.

Report on Performance

OUR VISION*

ICBC's vision is to ensure B.C. has the safest road transportation system with the best insurance program in North America:

- ICBC's excellence in taking the risk out of road transportation would result in the best record in North America for saving lives and saving money.
- ICBC would save lives and money through comprehensive loss prevention (e.g. road safety), insurance protection, and recovery initiatives.
- ICBC would deliver customer-valued safety and insurance products and services to minimize premiums.

OUR MISSION*

ICBC's mission statement is helping British Columbians take the risk out of road transportation.

ICBC is an insurance company with a difference. In addition to providing effective and reliable universal auto insurance and competitive optional coverages to British Columbians, ICBC also provides all driver and vehicle licensing and regulated services, including commercial vehicle compliance. With this current mandate, ICBC has been able to work effectively towards reducing the risks on B.C. roads.

OUR VALUES

ICBC's corporate values are Integrity, Commitment, and Dedication to Customers.

ICBC has interpreted these words internally as follows:

Integrity – We value people by treating others with respect and dignity. We are open and honest by representing our intentions and ourselves truthfully. We will be accountable for our performance and ensure decisions made are supportable.

Commitment – We demonstrate commitment as employees by doing our best work at all times. ICBC leadership demonstrates commitment to employees by creating a work environment that supports employees in making their best contribution for the benefit of the customer. We are committed to operating in a cost effective manner and will continue to seek ways to improve efficiency.

Dedication to the Customer – We measure our success by our customers' belief that ICBC products and services provide good value for their money. We provide excellent customer service by approaching every customer interaction as an opportunity to create a positive customer experience.

These values will be reflected in all of our actions, strategies and corporate policies.

****ICBC's vision and mission statements will be reviewed in light of direction received from the Government's Core Services Review process and ICBC's Board of Directors. However, many themes are unlikely to change and ICBC will continue to focus on customer service, road safety and operational efficiencies.***

ICBC's performance measurement and management system assesses the Corporation's progress in achieving its strategic objectives. This system, using identifiable measures and targets, translates strategic objectives into specific actionable results.

The following tables show corporate strategic objectives, corporate measures and targets that have been developed to measure ICBC's progress in achieving its objectives. These measures relate to the strategies and priorities established for 2001 and have been revised for 2002. The revised objectives and measures are discussed in more detail in ICBC's Service Plan 2002-2004.

In this report, the most recent benchmark data was provided where available. At the time of printing, 2001 benchmark data was not available.

FINANCIAL: ICBC WILL BE FINANCIALLY SOUND

Strategic Objective – MANAGE CLAIMS COSTS AND PREMIUM REVENUES

Loss Ratio – A key performance indicator within the insurance industry is the loss ratio, which is a measure of the insurance product's profitability and is calculated as the sum of claims, claims related costs and road safety costs over premiums earned.

	1999 Actual	2000 Actual	2001 Target	2001 Actual
Current Year	101.3%	98.0%	97.4%	**99.9%**
Prior Year	(10.0)%	(11.2)%	(3.5)%	**0.1%**
Total	91.3%	86.8%	93.9%	**100.0%**

For 2001, ICBC's loss ratio was 100.0% as compared to the target of 93.9%. This shortfall is due to the impacts of prior years' claims adjustment which resulted in an unfavourable adjustment in 2001 as opposed to the favourable adjustment of 3.5% included in the 2001 target. In addition, there was a higher than expected number of claims as a result of an increase in the number of policies sold. The most significant increase was in comprehensive claims where there were increases in theft claims of up to 15.6% as a result of the slowdown in the economy and lower public awareness. Increases were also seen in windshield claims, property damage claims and collision clams as a result of policy changes and the Lower Mainland transit strike. The average costs of claims also increased as a result of price increases and the increase in theft claims.

Performance in 2001 is below the results of 2000 and the primary reason for this is the $266 million prior years' adjustment available in 2000 to reduce claims costs and accounts for 11.2% of the difference between the two years. In 2001, road safety expenses have been included in the calculation of the ratio as it has a direct impact on the claims incurred costs and the previous years have been restated for comparability.

When compared to the Canadian industry benchmark of 73.6%[1], ICBC, like other public insurers, has a higher loss ratio than private insurers. As a crown corporation with the mandate to provide basic insurance to all drivers on a non-discriminatory basis, premiums do not need to include a profit component and investment income generated is used to lower premiums for policyholders. On average, over the last five years, 94% of premiums earned have gone to pay for claims and related costs whereas in the industry, this ratio is considerably lower.

[1] From Best's Key Rating and Statistical Guide, Property & Casualty. A.M. Best Canada Ltd. 2001 Edition (2000 Operating results for Canadian P&C companies selling auto insurance)

Strategic Objective – MANAGE OPERATING AND ADMINISTRATIVE COSTS

Claims cost control expense per reported claim – Average cost of handling claims per reported claim.

1999 Actual	2000 Actual	2001 Target	2001 Actual
$367	$366	$385	**$359**

The claims costs control expense per reported claim provides an indication of ICBC's level of efficiency. This measure represents the average cost of handling claims per reported claim. The result for 2001 was $359 per reported claim which is lower than the target of $385. During the year, the Corporation had an increase in the number of claims reported, yet claims operating costs decreased as a result of financial restraints and staff reductions. As a result, 2001's results were better than the previous years'.

When compared to both the Canadian and U.S. benchmarks of $478[1] and $371[1] US respectively, the Corporation's costs are significantly lower. As a result of economies of scale, ICBC is able to achieve operating efficiencies not available to other organizations.

Administrative expense to gross revenue – This efficiency measure describes the costs for general administrative support not specific to any line of business as a ratio to gross revenue.

1999 Actual	2000 Actual	2001 Target	2001 Actual
5.4%	6.2%	5.7%	**5.0%**

For 2001, the actual result was 5.0% and is better than target as well as an improvement over previous years. This is primarily due to the reduction in administrative and operating costs over the year, especially in discretionary spending such as professional services, furniture and equipment, travel and accommodation, advertising and corporate sponsorships. Significant reductions were also made in projects and compensation costs and the Corporation has begun a process to consolidate office space and eliminate leases.

This ratio is a component of the total expense to gross premiums written and ICBC's result is significantly lower than the Canadian industry benchmark.

Total expense per gross premiums written – An industry standard measure for operating efficiency is to determine the proportion of insurance premiums that is required for the operations and administration of the insurance business.

1999 Actual	2000 Actual	2001 Target	2001 Actual
37.9%	38.5%	38.5%	**37.1%**

In 2001, the actual result of 37.1% is better than target and is an improvement over the previous two years. This is primarily due to an increase in the number of policies sold and higher premiums written, while operating costs decreased during the year as a result of financial restraint measures. Approximately 1,000 employees departed from the Corporation since April 2001, which represents 15% of the workforce. The impact of these benefits and other financial restraint measures on this ratio is eroded since ICBC's claims service expenses are higher than the industry average.

When compared to industry, ICBC's total expense ratio compares favourably with the Canadian industry benchmark of 41.9%[1] and is higher than the U.S. benchmark of 34.6%[1]. Included in the U.S. benchmark group is a high percentage of companies who employ direct writers, at considerably lower commission costs, while the Canadian industry standard is to use brokers. It is also important to note that ICBC pays 4% premium tax on premiums written which is one of the higher rates within Canada.

[1] From John L. Ward Financial Group Inc. 2001 Benchmarking Study (2000 operating results)

Certain comparative figures have been restated to conform to the current year's presentation.

Strategic Objective – ENSURE FINANCIAL STABILITY

Rate stabilization to liabilities ratio – This measure is a ratio of the Rate Stabilization Reserve, commonly known as retained earnings in the industry, to the Corporation's liabilities. ICBC's Rate Stabilization Reserve is intended to provide the Corporation with the ability to absorb unexpected losses arising from unusual events and factors.

1999 Actual	2000 Actual	2001 Target	2001 Actual
6.8%	9.2%	9.1%	**4.8%**

With the net loss of $251 million in 2001, the Rate Stabilization Reserve was reduced to $269 million which represents 4.8% of total liabilities and is significantly lower than the target for 2001 and the prior years' levels. To reverse this situation in 2002 and onwards, the Corporation will be focused on improving profitability in all aspects of its business and search for new cost reduction or revenue generating opportunities to improve the bottom line.

When compared to the private sector, ICBC's reserve levels are significantly lower. In the private sector, capital requirements are dictated by regulators for the protection of policyholders. The industry equivalent ratio is 25% and the industry as a whole is overcapitalized. As a crown corporation and B.C.'s primary insurer with responsibility to provide all drivers with affordable insurance, ICBC's business has a stable revenue stream and is not subject to the same level of risk as private insurers. As a result, lower levels of reserves are maintained.

In 2001 the Safer Roads' Fund was transferred back to the Rate Stabilization Reserve. 2000 actual and 2001 target have been restated to reflect this change.

Strategic Objective – OPTIMIZE YIELD ON FINANCIAL INVESTMENTS

Return on investment – Investment income as a ratio over the average book value of investments.

1999 Actual	2000 Actual	2001 Target	2001 Actual
8%	10.8%	8%	**8%**

ICBC's return on investment of 8.0% was on par with the target and is consistent with the return achieved in 1999 as well. Year 2000 was higher as a result of extraordinary equity gains realized in the year which were not repeated in 2001. When compared to the Canadian industry benchmark of 9% [1] for 2000, ICBC's results of 10.8% outperformed the industry. When looking at investment returns on a market value basis in 2001, ICBC's performance also exceeds that of the property and casualty benchmark group.

[1] From John L. Ward Financial Group Inc. 2001 Benchmarking Study (2000 operating results)

CUSTOMER: ICBC WILL BE CUSTOMER DRIVEN

Strategic Objective – MINIMIZE PREMIUMS

Percentage premium price change – Percentage premium price change on stated rates.

1999 Actual	2000 Actual	2001 Target	2001 Actual
0%	0%	0%	**7.4%**

Over the last six years, ICBC maintained a freeze on premiums using a strategy of investing in road safety and claims costs reduction programs. During 2001, the outlook for year-end showed significant losses and it became apparent that a premium increase would be needed. Before this occurred, the Corporation looked at ways to minimize the impacts by reducing administrative costs, operating costs and program costs. Product changes and deductible changes were also reviewed. Following these efforts, the Corporation increased premiums as of November 7, 2001 (effective for renewals commencing January 1, 2002) by an average of 7.4%.

In general, the property and casualty industry has been experiencing deteriorating profitability. Many companies are following similar strategies of decreasing administrative costs, reducing claims costs and adjusting premiums when necessary, as in Ontario and Alberta where premiums have increased.

Strategic Objective – SATISFY CUSTOMERS

Customer value index (CVI) – This measures the customer's overall response to seven questions and provides an indication of whether they believe ICBC is able to deliver its services fairly and effectively. Questions relate to fairness of treatment, satisfaction level at the next driver licence renewal, reasonableness of premiums and questions on road safety.

1999 Actual	2000 Actual	2001 Target	2001 Actual
58.6%	58.8%	63%	**62.0%**

Customer service initiatives were undertaken in 2001 and results for 2001 have improved significantly over the previous two years. These are expected to continue into 2002.

Percentage satisfied – This measure evaluates customer satisfaction with one of the following transactions: insurance claim, Autoplan purchase, road test, knowledge test, or driver's licence renewal.

1999 Actual	2000 Actual	2001 Target	2001 Actual
74%	76.4%	81%	**76%**

A number of initiatives were commenced in 2001 to reduce costs and increase efficiencies with the objective of improving the Corporation's competitiveness. These initiatives will continue in the coming years. Even though results for 2001 did not meet the target, they are consistent with previous years.

Strategic Objective – REDUCE CRASHES AND CRIME

Total crash and crime incidents per 100,000 population – This is defined as the number of crash and crime incidents[1] that occurred during the calendar year within the Province and have been reported to ICBC per 100,000 B.C. population.

1999 Actual	2000 Actual	2001 Target	2001 Actual
8,531	8,388	8,500	**8,674**[2]

The number of incidents per 100,000 population increased over last year and is also above the 2001 target. This is primarily attributable to the increase in collision claims and comprehensive claims. The increase in collision claims is due to a couple of factors – an increase in the number of policies sold and increased traffic volumes during the transit strike. The most significant increase in comprehensive claims came from total theft of auto and theft from auto. It is believed that a slowdown in the economy, less enforcement activity and lower public awareness may have contributed to this increase. Measures will be undertaken in 2002 to focus on these claims.

[1] The incidents per 100K population is a count of crash/crime incidents per 100,000 people in the year. Incidents are not the same as the number of people involved. They are the count of occurrences rather than people. Crashes include fatal, injury, property damage incidents. Crimes include auto theft, vandalism, and theft from auto.

[2] Customers have up to two years to report claims. These statistics will increase over time.

Auditor's Report

The Honourable Gary Collins
Minister of Finance
Province of British Columbia

We have audited the consolidated statements of financial position of the Insurance Corporation of British Columbia as at December 31, 2001 and 2000 and the consolidated statements of operations and retained earnings and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
VANCOUVER, B.C.
FEBRUARY 8, 2002

Actuary's Report

I have valued the policy liabilities in the Consolidated Statements of Financial Position of the Insurance Corporation of British Columbia as at 31 December 2001 and their changes in its Consolidated Statements of Operation for the year ended in accordance with accepted actuarial practice including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. It is the accounting policy of the Corporation to not reflect the time value of money when stating certain policy liabilities. My valuation is consistent with that policy. (See note 2)

In my opinion, except as noted in the previous paragraph, the amount of the policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

William T. Weiland

William T. Weiland
FELLOW, CANADIAN INSTITUTE OF ACTUARIES
ECKLER PARTNERS LTD.
VANCOUVER, B.C.
FEBRUARY 8, 2002

Consolidated Statements of Operations and Retained Earnings

For the years ended December 31, 2001 and 2000

($ THOUSANDS)	2001	2000
REVENUE		
Vehicle premiums written	$ 2,477,495	$ 2,375,198
Driver premiums written	21,384	22,913
	$ 2,498,879	$ 2,398,111
Vehicle premiums earned	$ 2,425,288	$ 2,364,670
Driver premiums earned	21,778	22,361
TOTAL PREMIUMS EARNED	2,447,066	2,387,031
CLAIMS AND RELATED COSTS		
Claims incurred	2,126,250	2,006,151
Claims services	273,951	276,818
Road safety services	44,129	56,213
	2,444,330	2,339,182
Operating costs – insurance (note 11)	469,674	479,691
TOTAL CLAIMS AND RELATED COSTS	2,914,004	2,818,873
Underwriting loss before prior years' claims adjustments	(466,938)	(431,842)
Prior years' claims adjustments	(2,230)	266,336
Underwriting loss	(469,168)	(165,506)
Investment income (note 4)	453,955	625,660
INCOME (LOSS) – INSURANCE OPERATIONS	(15,213)	460,154
Licences and fines collected on behalf of the Province (note 12)	424,630	422,628
Payment of provincial licences and fines to the Province (note 12)	424,630	422,628
Operating costs – non-insurance (note 11)	95,761	102,914
	520, 391	525,542
INCOME (LOSS) – NON-INSURANCE OPERATIONS	(95,761)	(102,914)
INCOME (LOSS) BEFORE THE UNDERNOTED NON-RECURRING ITEMS	(110,974)	357,240
Road safety dividend (note 8)	-	218,500
Restructuring costs (note 13)	39,545	-
Provision for diminution in value of investments (note 4a)	100,000	-
NET INCOME (LOSS) FOR THE YEAR	(250,519)	138,740
RETAINED EARNINGS		
Rate Stabilization Reserve, beginning of year (restated - note 10)	519,741	381,001
Rate Stabilization Reserve, end of year	$ 269,222	$ 519,741

Consolidated Statements of Financial Position

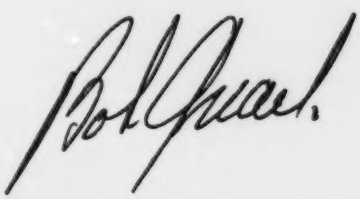
As at December 31, 2001 and 2000

($ THOUSANDS)	2001	2000
ASSETS		
Cash in hands of agents	$ 11,852	$ 12,365
Investments (note 4)	5,536,510	5,841,304
Accrued interest receivable	59,235	68,547
Premiums and other receivables	51,562	50,543
Deferred premium acquisition costs and prepaids (note 5)	20,169	59,264
Accrued pension benefit (note 6)	15,593	8,080
Property and equipment (note 7)	129,649	151,305
	$ 5,824,570	$ 6,191,408
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Cheques outstanding	$ 39,519	$ 66,593
Accounts payable and accrued charges	201,481	221,142
Road safety dividend payable (note 8)	-	218,500
Accrued post-retirement benefits (note 6)	50,872	41,838
Premiums and fees received in advance	29,445	26,321
Deferred investment gains and losses (note 3)	26,651	96,179
Unearned premiums	1,163,068	1,111,255
Unpaid claims (note 9)	4,044,312	3,889,839
	5,555,348	5,671,667
RETAINED EARNINGS		
Rate Stabilization Reserve (note 10)	269,222	519,741
	$ 5,824,570	$ 6,191,408

Contingent liabilities and commitments (note 16)
Subsequent event (note 18)

Approved by the Board

Nick Geer
CHAIR OF THE BOARD OF DIRECTORS



Bob Quart
DIRECTOR

Consolidated Statements of Cash Flow

For the years ended December 31, 2001 and 2000

($ THOUSANDS)	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
CASH RECEIVED FROM:		
Agents for vehicle premiums, licence fees and social service taxes	$ 2,982,898	$ 2,893,510
Collection for driver point penalty premiums, subrogation and other receivables	255,447	236,674
Salvage sales	46,903	43,837
Interest	296,079	330,476
Capital gains realized	49,600	160,756
Dividends and other investment income received	49,370	35,181
	3,680,297	3,700,434
CASH PAID TO:		
Claimants or third parties on behalf of claimants	(2,078,420)	(1,933,052)
Province of B.C. for licence fees and social service taxes collected	(396,506)	(358,966)
Suppliers of goods and services	(300,514)	(330,388)
Employees for salaries and benefits	(376,702)	(352,497)
Agents for commissions	(179,880)	(165,448)
Policyholders for premium refunds	(189,547)	(186,125)
Policyholders for road safety dividend (note 8)	(218,500)	–
Province of B.C. for premium taxes	(89,914)	(96,179)
Others	286	(1,270)
	(3,829,697)	(3,423,925)
Cash flows from operating activities	(149,400)	276,509
CASH FLOWS USED IN INVESTING ACTIVITIES		
Change in net investments	204,794	(235,372)
Cash payments to vendors of land, buildings and equipment	(30,510)	(34,060)
Proceeds from sales of land, buildings and equipment	1,677	761
Cash flows used in investing activities	175,961	(268,671)
Increase in cash and cash equivalents during the year	26,561	7,838
Cash and cash equivalents, beginning of year	(54,228)	(62,066)
Cash and cash equivalents, end of year	$ (27,667)	$ (54,228)
Represented by:		
Cash in hands of agents	$ 11,852	$ 12,365
Cheques outstanding	(39,519)	(66,593)
	$ (27,667)	$ (54,228)

Notes to Consolidated Financial Statements

For the years ended December 31, 2001 and 2000

1. PURPOSE

The Insurance Corporation of British Columbia (the Corporation) is a Crown Corporation incorporated in 1973 under the Insurance Corporation Act, R.S.B.C. 1979 Chapter 201. The Corporation operates and administers a plan of automobile insurance as established under the Insurance (Motor Vehicle) Act and, as required by legislation, reports the revenues and expenses attributable to that plan separately from other operations of the Corporation, if any.

The Corporation provides mandatory basic insurance coverage, which includes $200,000 third party legal liability protection and $150,000 accident benefits to help with the immediate and long term needs of crash victims to all licensed vehicle owners in B.C. The Corporation also offers extended third party legal liability and other optional insurance coverage in a competitive environment. The Corporation's products are marketed through over 900 independent agents located throughout the Province. The Corporation has the power and capacity to act as an insurer and reinsurer in all classes of insurance; however, the Corporation currently only acts as a primary auto insurer.

Under the Insurance Corporation and Motor Vehicle Acts, the Corporation is also responsible for non-insurance services including vehicle licensing, registration and issuance of driver licences, vehicle standards and inspections, commercial transport regulation, weigh scale operations, enforcement of vehicle weights and dimensions, motor carrier licensing support, road inspections, and enforcement and compliance audits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Reporting

The consolidated financial statements of the Corporation, as required by the Insurance Corporation Act, are prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary company, ICBC Properties Ltd.

Investments and Investment Income

Bonds and mortgage-backed securities are valued at amortized cost with any premium or discount on purchase being deferred and amortized over the average term to maturity. Money market securities and equities are valued at cost. Income on interest-bearing securities is accrued daily. Real estate held for investment consists of income-producing properties which are recorded at cost less accumulated amortization. Dividends on equity investments are recognized as income on their payment dates. If the value of an investment suffers a loss in value that is other than a temporary decline, the investment will be adjusted to the estimated realizable value with the adjustment being included in the statement of operations.

Capital gains and losses on money market securities, bonds, equities and other investments are included in income in the period realized (see note 3).

The Corporation uses interest rate and foreign currency swap contracts in the management of its investment portfolio. Payments and receipts under swap contracts are recognized as adjustments to investment income on a basis that matches them with the related fluctuation in the receipts and payments.

Pensions and Post-Retirement Benefits

Commencing in 2000, the Corporation has prospectively adopted the standards for employee future benefits set out in Section 3461 of the *CICA Handbook* by accruing its obligations net of plan assets using the following rules:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health-care costs.
- The expected return on plan assets is calculated using the fair value of the assets.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the 14-year average remaining service period of active employees.

Certain employees, formerly of the Motor Vehicle Branch, belong to the B.C. Public Service Pension Fund. Defined contribution plan accounting is applied to the B.C. Public Service Pension Fund.

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation and amortization. Software development costs, which comprise labour and material costs for design, construction, testing, implementing and other related costs, are capitalized for major infrastructure projects expected to be of continuing benefit to the Corporation. Other development costs such as preliminary research, design and development expenses relating to leading edge information technology projects, and expenses related to re-engineering efforts are expensed as incurred where the potential future benefits are uncertain or not quantifiable.

Depreciation is provided on a straight-line basis at the following rates: buildings 5 to 10 per cent, furniture and equipment 10 to 33 per cent and software 10 to 33 per cent. Leasehold improvements are amortized over the term of each lease.

Unearned Premiums

The Corporation earns vehicle and driver premiums evenly over the term of each vehicle policy or the driver's penalty point year, respectively. Unearned premiums is the portion of premiums relating to the unexpired term.

Deferred Premium Acquisition Costs

Deferred premium acquisition costs, represented by commissions and premium tax expenses, relate directly to the writing of policies and to the extent recoverable, are deferred and amortized to income over the term of the policies.

A premium deficiency exists when future claims and related expenses exceed unearned premiums in which case they are written down. In calculating a premium deficiency, the Corporation recognizes anticipated investment income.

Unpaid Claims

The provision for unpaid claims includes an estimate for reported and unpaid claims and expenses as well as an estimate for claims incurred but not reported in the year. These are determined based on the claim settlement experience of the Corporation, current trends and a detailed regular review and update. This provision is carried on a non-discounted basis so that the claims liabilities are not reduced to take account of the delay between the time the claims were established and the date of the final settlement.

The provision for unpaid claims and adjustment expenses are estimates subject to variability which could be material in the near term. All changes in estimates are recorded as incurred claims and prior years' adjustments in the current period. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

The estimation of claims development involves assessing the future behaviour of claims taking into consideration the consistency of the Corporation's claim handling procedures, the amount of information available and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates become. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The ultimate cost of long settlement liability claims is difficult to predict for several reasons, including claims not being reported until many years after a policy expires, or changes in the legal environment. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and are adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns, current socio-economic trends and structured settlements provided in the form of consistent periodic payments as opposed to lump sums (see note 16).

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing the provision for unpaid claims and adjustment expenses.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The more subjective of such estimates are unpaid claims, provisions for doubtful accounts and deferred premium acquisition costs. Management believes its estimates to be appropriate; however, actual results may be significantly different from these estimates and would be reflected in applicable future periods.

3. CHANGE IN ACCOUNTING POLICY

During the year, the Corporation changed its accounting policy for the recognition of realized gains and losses on bond sales consistent with the treatment it uses to recognize other investment gains and losses (see note 2). The previous policy deferred and amortized bond gains and losses over the term to maturity or 60 months, whichever was less. As a result of the change in accounting policy, the net realized gain on bond sales in 2001 of $81.9 million was included in investment income in the year. Had no change in accounting policy been made, $73.0 million of the total gain would have been deferred and recognized in income in future years.

Management considers this change of recognizing bond gains and losses in income in the period realized more appropriate and consistent with accepted industry practice.

4. INVESTMENTS

($ THOUSANDS)	2001		2000	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Money market securities	$ 38,870	$ 38,870	$ 269,476	$ 269,476
Bonds				
Federal	1,362,010	1,379,857	1,616,448	1,653,424
Provincial	726,605	745,551	941,772	969,370
Municipal	473,273	487,067	455,090	464,615
Corporate	1,738,630	1,788,331	1,453,058	1,464,388
Total Bonds	4,300,518	4,400,806	4,466,368	4,551,797
Mortgages	278,166	296,183	321,592	324,582
Equities	745,050	898,645	589,254	829,579
Real estate	273,906	265,506	194,614	187,691
Provision for diminution in value of investments (see note 4a)	(100,000)	(100,000)	–	–
	$ 5,536,510	$ 5,800,010	$ 5,841,304	$ 6,163,125

The estimated fair value of money market securities is cost. The estimated fair value for equities, bonds and mortgages is quoted market values. The estimated fair value of real estate is based on the most recent B.C. Assessment Authority values, except for the Surrey Central City development whose fair value is cost adjusted for provision as described in (a) below.

a) Provision for diminution in value of investments

The Corporation recently undertook an assessment of its investment in the Surrey Central City development. As a result of this assessment, which included independent market appraisals, the Corporation concluded that a provision of $100 million should be established. This project is still under development and a further assessment will be undertaken upon completion.

b) Fixed Income – interest rate risk

	2001		2000	
	AVERAGE YIELD (%)	DURATION (YEARS)	AVERAGE YIELD (%)	DURATION (YEARS)
Bonds				
Federal	5.3	6.6	5.9	6.4
Provincial	6.1	7.4	5.9	7.2
Municipal	6.3	6.6	6.3	5.6
Corporate	6.0	3.9	6.3	3.7
Total Bonds	5.8	5.6	6.2	5.6
Mortgages	6.9	2.9	6.7	2.5
Total Bonds & Mortgages	6.0	5.5	6.2	5.2

c) Investment Income

($ THOUSANDS)	2001	2000
Interest, dividend and other income		
Money market	$ 11,775	$ 37,229
Bonds	255,090	269,844
Equities	17,865	20,156
Mortgages	18,431	8,393
Real estate and other	13,277	6,863
	316,438	342,485
Gains / (losses) on the sale of investments		
Equities	(13,887)	192,420
Bonds - realized (note 3)	81,876	-
Bonds - amortized	69,528	90,755
	137,517	283,175
Total Investment Income	$ 453,955	$ 625,660

d) Fixed Income – maturity profile

($THOUSANDS)

	WITHIN ONE YEAR	ONE YEAR TO FIVE YEARS	AFTER FIVE YEARS	TOTAL
2001				
Bonds				
Federal	$ 62,296	$ 466,578	$ 833,136	$ 1,362,010
Provincial	-	48,424	678,181	726,605
Municipal	-	81,113	392,160	473,273
Corporate	262,178	1,032,054	444,398	1,738,630
Total Bonds	324,474	1,628,169	2,347,875	4,300,518
Mortgages	46,659	214,897	16,610	278,166
Total Bonds & Mortgages	$ 371,133	$ 1,843,066	$ 2,364,485	$ 4,578,684
2000				
Bonds				
Federal	$ -	$ 520,880	$ 1,095,568	$ 1,616,448
Provincial	43,413	93,154	805,205	941,772
Municipal	7,290	177,100	270,700	455,090
Corporate	104,669	960,260	388,129	1,453,058
Total Bonds	155,372	1,751,394	2,559,602	4,466,368
Mortgages	44,117	260,504	16,971	321,592
Total Bonds & Mortgages	$ 199,489	$ 2,011,898	$ 2,576,573	$ 4,787,960

The Corporation has converted a portion of its fixed rate corporate bond holdings into floating rate assets by purchasing interest rate and cross-currency interest rate swaps. Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount. The total notional amount outstanding at December 31, 2001 is $163.9 million (2000 - $25.7 million). Cross-currency interest rate swaps involve the exchange of both principal amount and fixed floating interest rate payment obligations in two different currencies. The notional amount of cross-currency interest rate swaps outstanding at December 31, 2001 is $99.4 million (2000 - $41.8 million).

At December 31, 2001, these swap contracts all had remaining terms between one and five years with an average receiving floating interest rate of the three-month Canadian Deposit Overnight Rate (CDOR) plus 25.6 basis points (2000 - 29.4 basis points) and an average pay interest rate of 7.26 per cent (2000 - 6.58 per cent). As at December 31, 2001, the interest swaps had an estimated negative value of $22.0 million (2000 - negative $1.7 million). These negative values have been reflected in the estimated fair value of bonds.

The Corporation has sold equity put and covered call option contracts which potentially obligate it to purchase $7.3 million and/or sell $5.7 million (2000 - purchase $21.5 million) in Canadian equities. As at December 31, 2001, the estimated negative value of these options was $0.3 million (2000 - negative $4.5 million). These negative values have been reflected in the estimated fair value of equities.

The Corporation also participates in a securities lending program managed by a federally regulated financial institution whereby it lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Corporation receives securities of equal or superior credit quality as collateral for securities loaned and records commissions on transactions as earned. At December 31, 2001 securities with an estimated fair value of $441 million (2000 - $940 million) have been loaned and securities with an estimated fair value of $468 million (2000 - $987 million) received as collateral.

The Corporation enters into sell/buyback transactions whereby Government of Canada bonds are sold and simultaneously repurchased at a future date with the market repo rate determining the forward contract price. The Corporation has the obligation at December 31, 2001 to repurchase $272.5 million (2000 - $76.9 million) of Government of Canada bonds. The obligation at year-end approximates the fair value of the bonds.

5. DEFERRED PREMIUM ACQUISITION COSTS

Deferred premium acquisition costs have been written down by a cumulative amount of $111 million (2000 - $61 million). This was necessitated due to a shortfall between the amount of deferred costs and the estimated profit remaining in the unearned premiums. Accordingly, the net adjustment of $50 million in 2001 has been reflected as an additional charge in the statement of operations as follows:

($ THOUSANDS)	2001	2000
Commission expense for the year	$ 178,059	$ 169,694
Earlier recognition of future expenses	35,389	11,454
	$ 213,448	$ 181,148
Premium tax expense for the year	$ 89,214	$ 94,288
Earlier recognition of future expenses	14,596	4,956
	$ 103,810	$ 99,244

6. PENSION PLANS AND POST-RETIREMENT BENEFITS

The Corporation maintains contributory, defined benefit pension plans (the "Plans") that provide retirement benefits for regular employees, other than the employees of the former Motor Vehicle Branch, based on their length of service and highest five years' average earnings. The Plans are funded through trust funds held by a corporate trustee separately from all other assets of the Corporation. The Corporation pays post-retirement benefits for its retirees, which are Medical Services Plan and life insurance premiums, and extended healthcare and dental costs. Benefit entitlements differ for management and bargaining unit staff.

Information regarding the Plans and post-retirement benefits is as follows:

($ THOUSANDS)	PENSION PLANS		POST-RETIREMENT BENEFITS	
	2001	2000	2001	2000
Accrued Benefit Obligation				
Balance at beginning of year	$ 417,178	$ 389,300	$ 41,838	$ 35,169
Current service cost and employees' contributions	32,632	33,365	6,197	4,485
Interest cost	31,100	27,570	3,345	2,604
Actuarial (gains) losses and adjustments	(24,274)	(24,553)	(5,389)	
Benefits paid	(11,031)	(8,504)	(508)	(420)
Balance at end of year	445,605	417,178	45,483	41,838
Plan Assets				
Fair value at beginning of year	553,716	486,600		
Actual return on plans assets	17,186	51,710		
Employer contributions	7,982	9,850	508	420
Employees' contributions	9,984	10,785		
Actuarial adjustment		3,275		
Benefits paid	(11,031)	(8,504)	(508)	(420)
Fair value at end of year	577,837	553,716	0	0
Funded status — plan surplus (deficit)	132,232	136,538	(45,483)	(41,838)
Unamortized net actuarial losses/(gains)	(8,920)	(12,034)	(5,389)	
Unamortized transitional obligation/(asset)	(107,719)	(116,424)		
Accrued benefit asset (liability)	$ 15,593	$ 8,080	$ (50,872)	$ (41,838)

The Plans' assets consist of Canadian and foreign equities and government and corporate debt instruments.

Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

($ THOUSANDS)	PENSION PLANS		POST-RETIREMENT BENEFITS	
	2001	2000	2001	2000
Accrued benefit obligation and plan deficit	$ 10,067	$ 9,249	$ 45,483	$ 41,838

The Corporation's net benefit plan expense for the Plans and post-retirement benefits is as follows:

($ THOUSANDS)	PENSION PLANS		POST-RETIREMENT BENEFITS	
	2001	2000	2001	2000
Current service cost	$ 22,648 (1)	$ 22,580	$ 6,197	$ 4,485
Interest cost	31,100	27,570	3,345	2,604
Expected return on plan assets	(44,574)	(39,675)	–	–
Amortization of transition assets	(8,705)	(8,705)	–	–
Net expense	$ 469	$ 1,770	$ 9,542	$ 7,089

The Corporation contributed $2.0 million in 2001 (2000 - $2.3 million) to the B.C. Public Service Pension Plan.

(1) Net of employees' contributions of $9,984,000 (2000 - $10,785,000).

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	PENSION PLANS		POST-RETIREMENT BENEFITS	
	2001	2000	2001	2000
Discount rate	7.0%	7.0%	7.0%	7.0%
Expected long-term rate of return on plans assets	7.5%	8.0%	–	–
General rate of compensation increase (1)	3.5%	3.5%	3.5%	3.5%
Extended healthcare trend rate	–	–	25.0%(2)	12.0%(3)
Medical Services Plan trend rate	–	–	–	3.0%
Dental trend rate	–	–	3.0%	3.0%

7. PROPERTY AND EQUIPMENT

($ THOUSANDS)	2001		2000	
	COST	NET BOOK VALUE	COST	NET BOOK VALUE
Land	$ 27,323	$ 27,323	$ 28,591	$ 28,591
Buildings	146,414	45,116	153,352	53,643
Furniture and equipment	152,949	38,950	148,860	53,880
Software	15,732	7,175	15,715	8,655
Leasehold improvements	17,145	11,085	11,664	6,536
	$ 359,563	$ 129,649	$ 358,182	$ 151,305

Depreciation expense for the year ended December 31, 2001 amounted to $31.8 million (2000 - $32.0 million).

(1) There is a promotion and performance increase assumption in addition to this across-the-board increase.

(2) 25% for 2002, 10% per year for 2003 to 2011, 6% in 2012 and beyond.

(3) 12% for 2001 to 2010, 6% in 2011 and beyond.

8. ROAD SAFETY DIVIDEND

By a special Board resolution in 2000, the Corporation paid its policyholders a road safety dividend in early 2001. This dividend was paid in the form of cash to policyholders, including fleets, and totalled $218.5 million, including direct distribution costs.

9. UNPAID CLAIMS

The changes in unpaid claims recorded in the consolidated statements of financial position as at December 31, 2001 and 2000 and their impact on claims incurred for the year are as follows:

($ THOUSANDS)	2001	2000
Unpaid claims – beginning of year	$ 3,889,839	$ 3,970,298
Provision for losses and expenses for claims occurring in the current year	2,126,250	2,006,151
Increase (decrease) in estimated losses and expenses for losses occurring in prior years	2,230	(266,336)
Unpaid claims liabilities	6,018,319	5,710,113
Less:		
Payments on claims incurred in the current year	942,739	892,182
Payments on claims incurred in prior years	1,140,918	1,041,990
Recoveries on claims	(109,650)	(113,898)
Claims payments net of recoveries	1,974,007	1,820,274
Unpaid claims – end of year	$ 4,044,312	$ 3,889,839

10. RATE STABILIZATION RESERVE

The Rate Stabilization Reserve is intended to provide the Corporation with the ability to absorb unexpected losses arising from unusual events or factors.

During the year ended December 31, 2000, the Board of Directors approved the transfer of $60 million from the Rate Stabilization Reserve to create the Safer Roads Fund (the "Fund").

During the year ended December 31, 2001, the Board of Directors approved the transfer of the Fund balance back to the Rate Stabilization Reserve.

11. OPERATING COSTS

The Corporation's activities include insurance and non-insurance operations as described in note 1. Details of the expenses for the years ending 2001 and 2000 are as follows:

($ THOUSANDS)	2001	2000
Operating costs – insurance		
Administrative and other expenses	$ 136,651	$ 181,076
Autoplan services	31,265	33,785
Commissions	197,948	165,586
Premium taxes	103,810	99,244
	$ 469,674	$ 479,691
Operating costs – non-insurance		
Administrative and other expenses	$ 11,739	$ 13,389
Commissions	15,500	15,562
Commercial vehicle services expense	29,569	29,560
Driver services expense	38,953	44,403
	$ 95,761	$ 102,914

Administrative and other and commissions expenses have been allocated based on the estimated effort related to those activities.

12. RELATED PARTY TRANSACTIONS

The Corporation acts as agent for the Ministry of Finance and Corporate Relations regarding the collection of social service taxes on privately sold used vehicles and motor vehicle related debts. The Corporation is the sole provider of compulsory automobile insurance in British Columbia and, therefore, insures at market rates an indeterminate number of vehicles owned or leased by the government of the Province and its controlled entities. As a consequence of these relationships, the Corporation has at any time amounts owing to or from various government departments or ministries in the ordinary course of business.

The Corporation is responsible for collecting all vehicle-related revenue for acquiring and distributing licence plates and decals, including permit and other fees under the Motor Vehicle Act and fines under the Offense Act. Revenues from the sale of licences and permits are recorded as they are received and revenues from fines are recognized on an accrual basis. Funds are remitted to the Province of British Columbia as they are received. The costs associated with the licence and compliance activities conducted on behalf of the Province are included in the consolidated statements of operations as operating costs – non-insurance.

13. RESTRUCTURING COSTS

During the year the Corporation incurred costs to restructure its operations in order to improve efficiencies and be more competitive. These costs mainly consisted of severance arrangements for approximately 750 employees, the cost of relinquishing leased premises and other costs of consolidating operations. Accounts payable and accrued charges includes $30.8 million in respect of these costs.

14. FAIR VALUE

Fair value represents a point-in-time estimate that may not be relevant in predicting the Corporation's future earnings or cash flows. The fair value of financial instruments, other than unpaid claims (note 2), investments (note 4) and post-retirement benefits (note 6), approximate their carrying value.

15. ROLE OF THE ACTUARY AND AUDITOR

The actuary's responsibility is to carry out an annual valuation of the Corporation's policy liabilities which include provisions for claims and claims expenses, unearned premiums and deferred policy acquisition costs in accordance with generally accepted actuarial practice and regulatory requirements and report thereon. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of the Corporation and the insurance policies in force. The actuary in his verification of the underlying data used in the valuation also makes use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the Board of Directors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with generally accepted auditing standards and report thereon. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the provision for claims and claims expenses, unearned premiums and deferred policy acquisition costs. The auditor's report outlines the scope of their audit and their opinion.

16. CONTINGENT LIABILITIES AND COMMITMENTS

a) A number of more serious injury claims are settled through the use of structured settlements which require the Corporation to provide the claimant with periodic payments, usually for a lifetime. The Corporation purchases an annuity from an approved life insurance company to make these payments. In the event the life insurance company fails in its obligation, the Corporation is responsible for the annuity payments. At present, four federally licensed life insurance companies are approved for use by the Corporation. The list of approved insurance companies is determined by an ongoing analysis of total assets, credit rating reports and past service history. The gross amount of these structured settlements at December 31, 2001 is approximately $537 million (2000 - $498 million). To date the Corporation has not experienced any losses resulting from these arrangements, nor are any anticipated.

b) In the normal course of business, the Corporation has entered into significant finance contracts through a financial institution under its Autoplan12 program whereby policyholders finance their Autoplan premiums. The Corporation has provided guarantees to the financial institution for the total amount outstanding at any time. During 2001, the total amount financed was approximately $1.1 billion (2000 - $1.0 billion).

c) The Corporation at December 31, 2001 has $57.2 million (2000 - $120.8 million) in outstanding commitments related to the Surrey Central City development, whose estimated total development cost is $209.4 million (note 4(a)).

d) The Corporation has entered into operating leases of certain rental properties for varying terms. The annual rental payments pursuant to these leases over the next five years are as follows:

($ THOUSANDS)	
2002	$ 9,687
2003	5,688
2004	2,049
2005	583
2006	235
	$ 18,242

17. REINSURANCE

The Corporation has a five-year contract expiring December 2003 for casualty and catastrophe reinsurance to protect against significant losses as follows:

a) up to $100 million in excess of $25 million annually for catastrophic occurrences;
b) up to $75 million in excess of $72 million annually for aggregate pool coverage comprised of the excess over $1 million on individual loss occurrences, subject to limits in (c); and
c) up to $12 million in excess of $3.5 million for individual loss occurrences.

These reinsurance arrangements do not discharge the Corporation's obligation as primary insurer. The Corporation has made claims totalling $2.3 million against this policy to date.

18. SUBSEQUENT EVENT

A recent decision made by Cabinet on February 7, 2002 will result in a major tenant not occupying the space to which it is committed in the Surrey Central City facility. It will be some time before the impact of this decision can be quantified.

Management's Responsibility for Financial Statements

SCOPE OF RESPONSIBILITY

Management prepares the accompanying financial statements and related information and is responsible for their integrity and objectivity. The statements were prepared in conformity with Canadian generally accepted accounting principles. These financial statements include amounts that are based on management's estimates and judgments, particularly our reserves for losses and loss adjustment expenses. We believe that these statements present fairly the Corporation's financial position and results of operations and that the other information contained in the annual report is consistent with the financial statements.

INTERNAL CONTROLS

We maintain and rely on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Our corporate audit services department also independently reviews and evaluates these controls. We recognize the inherent limitations in all control systems and believe that our systems provide an appropriate balance between costs and benefits desired. We believe our systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

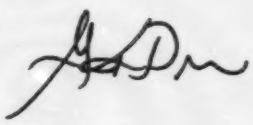
INDEPENDENT AUDITORS

Our independent auditors, PricewaterhouseCoopers LLP, have audited the financial statements. Their audit was conducted in accordance with generally accepted auditing standards, which includes the consideration of our internal controls to the extent necessary to form an independent opinion on the financial statements prepared by management.

AUDIT COMMITTEE

The Audit Committee, composed of members of the Board of Directors of the Insurance Corporation of British Columbia, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management, our internal auditors and representatives of our external auditors to discuss auditing, financial reporting and internal control matters. Both internal and external auditors have access to the Audit Committee without management's presence.

Kevin Benson
PRESIDENT & CEO
FEBRUARY 8, 2002



Geri Prior
VICE-PRESIDENT, FINANCE
and CHIEF FINANCIAL OFFICER
FEBRUARY 8, 2002

Corporate Governance

A nine-member Board of Directors appointed by the Lieutenant-Governor-in-Council guides the Corporation in fulfilling its mandate. Board members set the direction and goals of ICBC and are responsible for ensuring the overall financial health and operating results, while management is responsible for the day-to-day management of the Corporation. ICBC's governance structure is defined in the *Insurance Corporation Act* and is also held accountable to British Columbians through requirements articulated in other legislation such as the *Budget Transparency & Accountability Act*.

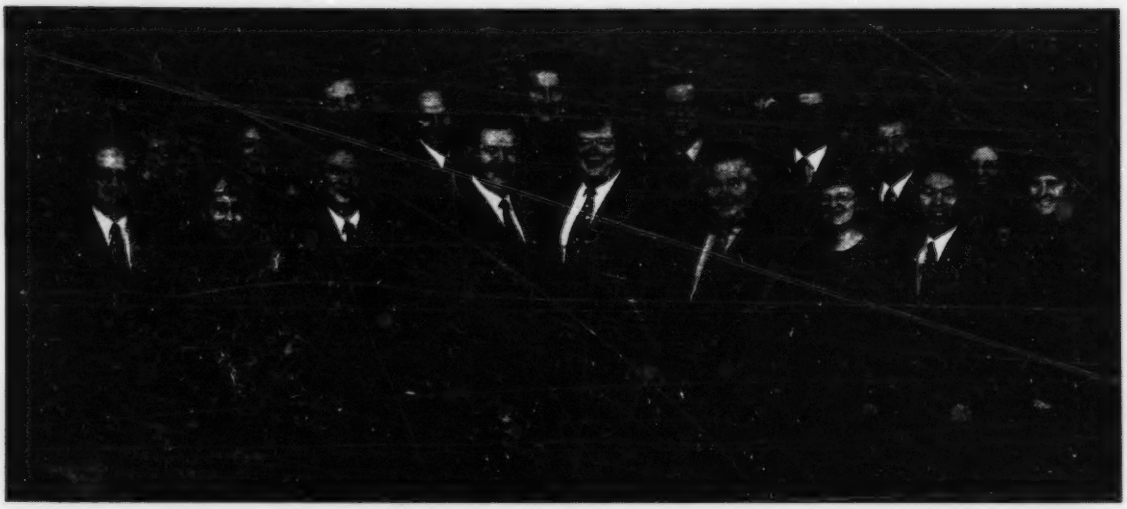
The individual members of ICBC's Board of Directors bring to their position a wealth of knowledge and experience, and provide this insight in deliberations with the full Board or as a member of one or more standing committees. These committees are the Audit Committee, Compensation Committee, and Investment Committee.

- *Audit Committee* - Bob Quart (Chair), Lisa Pankratz, Nick Geer, Kevin Benson (Ex officio Member)
- *Compensation Committee* - Susan I. Paish (Chair), Alice Downing, Ted Smith, Nick Geer (Ex officio Member), Kevin Benson (Ex officio Member)
- *Investment Committee* - Leslie G. Cliff (Chair), Lisa Pankratz, Felix Ts'o, Nick Geer (Ex officio Member), Kevin Benson (Ex officio Member)

The governance structure of ICBC's wholly owned subsidiary, ICBC Properties Ltd. (IPL), is set out in the company's by-laws and articles of incorporation. The subsidiary Board of Directors is accountable to ICBC's Board of Directors and consists of four members. Of these members, three directors also serve on ICBC's Board of Directors. Collectively, they provide relevant business, investment and real estate experience to the operations of the subsidiary.

- *ICBC Properties Ltd. Board of Directors* – Nick Geer (Chair), Felix Ts'o, Kevin Benson, Gordon Smith

ICBC's Board of Directors and Executive Committee



Front row from left:

Tom Ball – *Vice-President, Investments & Chief Investment Officer*

Geri Prior – *Vice-President Finance & Chief Financial Officer*

Felix Y. Ts'o *(Board Member)*

Kevin E. Benson – *President and Chief Executive Officer*

P. Nicholas (Nick) Geer *(Board Chair)*

Bill Goble – *Senior Vice-President, Sales and Service*

Alice Downing *(Board Member)*

Donnie Wing – *Vice-President of Strategy and Planning*

Lisa M. Pankratz *(Board Member)*

Back row from left:

Susan I. Paish *(Board Member)*

Shelley Milne – *Vice President and General Counsel*

Gordon Smith – *President, ICBC Properties Ltd.*

Keith Stewart – *Vice President, Information Services Division*

Ted Smith *(Board Member)*

John V. Madden – *Vice-President Human Resources*

Bob Quart *(Board Member)*

John Hancock – *Senior Vice-President, Insurance*

Leslie G. Cliff *(Board Member)*

ICBC Locations

FRASER VALLEY

Claims Centres*
- Abbotsford
- Chilliwack
- Langley
- Surrey (2)

Driver Services Centres**
- Abbotsford
- Langley
- Mission
- Surrey

Weigh Scales
- Hope (3)
- Nordel Way
- Pacific (Surrey)
- Patullo Bridge
- Port Mann (2)
- Abbotsford

GREATER VANCOUVER

Claims Centres*
- Burnaby (2)
- Coquitlam
- Maple Ridge
- New Westminster
- North Vancouver (2)
- Richmond (2)
- Squamish
- Vancouver (5)

Driver Services Centres**
- Burnaby (1)
- Coquitlam (1)
- North Vancouver
- Richmond
- Vancouver (3)

Weigh Scales
- Deas Tunnel

VANCOUVER ISLAND

Claims Centres*
- Campbell River
- Courtenay
- Duncan
- Nanaimo
- Port Alberni
- Powell River
- Victoria (2)

Driver Services Centres**
- Nanaimo
- Victoria (2)

Weigh Scales
- Duncan (2)
- Parksville
- Saanich

SOUTHERN INTERIOR

Claims Centres*
- Cranbrook
- Kamloops
- Kelowna
- Nelson
- Penticton
- Salmon Arm
- Trail
- Vernon

Driver Services Centres**
- Kamloops
- Kelowna

Weigh Scales
- Cache Creek
- Castlegar
- Golden
- Kaleden
- Kamloops (2)
- Kelowna
- Midway
- Sparwood
- Vernon
- Yahk
- Rossland
- Highway 5 North

NORTH/CENTRAL REGION

Claims Centres*
- 100 Mile House
- Dawson Creek
- Fort St. John
- Prince George
- Prince Rupert
- Quesnel
- Smithers
- Terrace
- Williams Lake

Driver Services Centres**
- Prince George

Weigh Scales
- Chetwynd
- Dawson Creek
- Fort Nelson
- Fort St. John
- Pouce Coupe
- Prince George (2)
- Quesnel
- Terrace
- Tete Jaune Cache
- Vanderhoof
- Williams Lake

* The Corporation also operates many satellite claims service locations across B.C.

** In many B.C. communities, vehicle-related services are also available from B.C. Government Agents' offices.